

Agenda Date: April 30, 2009
Item Numbers: B1 and B2

Dockets: TG-090097, TG-090098
Company Names: Murrey's Disposal Company, Inc. G-9
American Disposal Company, Inc. G-87

Staff: Christopher Mickelson, Regulatory Analyst
John Cupp, Consumer Protection Staff

Recommendation

1. Dismiss the Complaint and Order Suspending the Tariff Revisions filed by Murrey's Disposal Company, Inc., and American Disposal Company, Inc.
2. Grant the companies' request for an exemption from WAC 480-70-266, Tariffs, to allow the revised rates to become effective on May 1, 2009, on less than statutory notice.
3. Grant the companies' request for an exemption from WAC 480-70-271, Customer Notice, to allow the companies to notify customers affected by the increased revised rates in the next billing cycle.
4. Approve the staff recommended revised rates as filed by the companies on April 16, 2009, to become effective May 1, 2009, on a permanent basis, on less than statutory notice.
5. Do not require the companies to refund to customers the difference between the temporary rates and the permanent rates.
6. Require the companies to provide a detailed breakdown by expense accounts for the "Corporate Overhead" expense, at their next rate case filing.

Discussion

On January 15, 2009, Murrey's Disposal Company, Inc., (Murrey's), and American Disposal Company, Inc., (American), (collectively "the companies"), filed with the Utilities and Transportation Commission (commission) tariff revisions that would generate \$1,186,064 (4.3 percent) in additional annual revenue, for garbage, recycling, yard waste, and drop-box collection services. The companies are under common ownership and have identical rates. The companies serve approximately 52,000 customers in Pierce County.

The proposed filings pass through increased disposal fees to garbage customers, and increase rates for drop box, residential recycling, recycling station and yard waste collection services. The last general rate increase for drop box rates became effective January 1, 1999. The last general rate increase for recycling and yard waste rates became effective March 1, 2008.

The proposed residential and commercial garbage rate increases are prompted by a \$6.79 per ton tip fee increase at Land Recovery, Inc., the disposal site in Pierce County. The companies will notify customers of this disposal fee pass-through on their next bill. Proposed rates would generate \$502,669 (1.8 percent) in additional annual revenue.

Staff's analysis showed the companies' proposed rates for disposal fees were too high and would generate \$26,849 in revenue over the disposal fee cost. Staff and the companies agreed to revised rates for disposal fees that would generate \$475,820 (1.7 percent) in additional annual revenue. On February 23, 2009, the companies filed substitute pages with the commission at staff's revised rates.

Staff's analysis showed a higher revenue requirement for drop box, residential recycling, recycling station, and yard waste collection services than what the companies proposed. Staff's analysis also showed that garbage and multi-family recycling rates were too high and would generate more than the required revenue requirement.

On February 26, 2009, the commission issued a complaint and order suspending the tariff revisions filed by the companies on January 15, 2009, and the substitute pages the companies filed on February 23, 2009; and, allowed the proposed tariffs filed by the companies to become effective on March 1, 2009, on a temporary basis, subject to refund if the commission determines that different rates will be fair, just, reasonable and sufficient.

Staff and the companies' representatives met to discuss staff's analysis of the general rate cases, and agreed that Staff would take the following approach in determining the appropriate revenue requirement:

1. Apply the Lurito Gallagher methodology to each of the major services (e.g., total garbage, recycling and yard waste) separately, instead of to the combined services, to calculate the companies' total revenue requirement.
2. Allocate common business expenses to each type of service using the number of route hours (with certain adjustments), instead of using the number of routes.
3. Assign identifiable assets directly to each type of service and allocate common assets between each type of service (average costing), instead of assigning all infrastructure and investment to garbage and only those incremental or additional costs that can be assigned directly to recycling or yard waste programs (marginal costing).

Staff also found that the companies could not provide detailed information regarding the "Corporate Overhead" expenses, and should maintain their records in a manner that will allow them to provide a detailed breakdown, by expense account, for the "Corporate Overhead" expenses, in the companies' next rate case.

Staff and the companies agreed to a revised revenue requirement of \$1,088,584 (3.9 percent) in additional annual revenue and revised rates. On April 16, 2009, the companies filed revised rates at staff recommended levels. The following tables show the difference between the rates that the companies noticed to their customers and the revised rates.

Rate Comparison

Note: Increases From Proposed Rates to Revised Rates are Highlighted

Residential Monthly Rates	Current Rate	Proposed Rate	Revised Rate
Residential Garbage (One Can)	\$14.39	\$14.79	\$14.31
Residential Recycling (Per Month)	\$5.50	\$5.80	\$6.00
Yard Waste (Per Month)	\$5.00	\$5.67	\$5.76
Yard Waste Extra	\$1.20	\$1.50	\$1.50
Multi-Family Recycling (Per Yard)	\$4.14	N/A	\$3.63
Multi-Family (96 Gallon Cart Per Pick Up)	\$4.55	\$5.30	\$5.30
Multi-Family (6 Yard Container Per Pick Up)	\$31.55	\$34.80	\$34.80
Drop Box (20 Yard, First Haul)	\$130.00	\$143.00	\$148.00
Drop Box (25 Yard, First Haul)	\$147.00	\$160.00	\$165.00
Drop Box (30 Yard, First Haul)	\$161.00	\$174.00	\$179.00

Average Customer Charge Comparison – One Can Garbage

Note: Increases From Proposed Rates to Revised Rates are Highlighted

Monthly Garbage		Present	Proposed	Revised
Garbage Component (subscribes to mandatory recycling)		\$14.39	\$14.79	\$14.31
Mandatory Recycling – Every-Other-Week	+	\$5.50	\$5.80	\$6.00
Recycle Commodity Credit	-	\$3.39	\$3.39	\$3.39
Total Garbage and Mandatory Recycling	=	\$16.50	\$17.20	\$16.92
			4.2%	2.5%
Total Garbage and Mandatory Recycling		\$16.50	\$17.20	\$16.92
Voluntary Yard Waste – Every-Other-Week	+	\$5.00	\$5.67	\$5.76
Total Garbage, Mandatory Recycling and Voluntary Yard Waste	=	\$21.50	\$22.87	\$22.68
			6.4%	5.5%

Although the revised rates for garbage decrease and the revised rates for recycling and yard waste services increase, the total revised cost for combined garbage and mandatory recycling service decreases, and the total cost of combined garbage, mandatory recycling and yard waste service decreases. The revised rates are increases to the original proposed rates for drop box service that the companies noticed to customers.

The companies request an exemption from WAC 480-70-266, Tariffs, to allow the revised rates that result in increases to become effective on May 1, 2009, on less than statutory notice, and an exemption from WAC 480-70-271, Customer Notice, to allow the company to notify customers of increases in the next billing cycle.

The temporary rates were in effect for two months, resulting in a total amount over-collected of \$12,273, or 0.04 percent of the companies' total revenue requirement of \$28,398,810. The amount of the refund would be \$0.23 to residential garbage customers.

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Residential Garbage (One Can)	\$14.39	\$14.79	\$14.31
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The companies advised staff that it would cost them approximately \$15,000 to refund the \$12,273 difference to customers. Also, there is no mechanism available to the company to charge higher rates for drop box customers for the past two months. Therefore, staff recommends that the commission not require the companies to refund the customers the difference between the temporary rates and the permanent rates.

Customer Comments

A total of 71 customer comments have been received to date: 68 opposed, 2 undecided and 1 in favor. Customers often address several issues of concern within one comment. Therefore, subtotals may not equal the total number of comments submitted. On March 4, 2009, staff notified interested persons of the temporary rates. No customers have commented on the temporary rates.

Staff posted all requested materials to the commission's Web site. Consumer Protection staff advised customers that they have access to all company's documents pertinent to this rate case at www.utc.wa.gov, and that they may contact John Cupp at (888) 333-9882 with questions or concerns.

Filing Documents and Methodology Comments

- Twenty-seven customers mentioned that the cost of fuel and other business expenses are down, yet the company lists these as reasons for needing a rate increase. Five of these customers feel the company should reduce its rates. Eight customers expressed that the proposed amount of the increase is drastic.

Staff Response

Although staff understands the customers' concerns regarding the amount of the increase, we do not explicitly consider the amount of the increase in preparing recommendations. Staff audits the company's financial records from a twelve-month historical test period to ensure the company's costs are accurate and reasonable. We use a cost of service analysis to recommend rates for the various customer classes and service options. Staff's goal is to recommend the "right" rates that will allow the company to recover reasonable operating expenses and provide an opportunity to earn a reasonable return on investment.

The company's cost of fuel for the most recent twelve months (\$4.38) is higher than the fuel cost imbedded in the current rates (\$1.31 for garbage and \$3.07 for recycling and yard waste).

Service Quality Comments

- Five customers mentioned that the company did not provide service as scheduled during inclement weather in December, yet they were billed as if their garbage had been picked up.

Staff Response

Companies are not required to credit for missed pickups if they collect what they missed when conditions permit, as long as the amount of the extra garbage is reasonably what would have accumulated during the missed period.

- Eight customers expressed general dissatisfaction with the company's service.

Staff Response

Staff provided customers with instructions on how to file an informal complaint if the company does not resolve an issue to the customer's satisfaction.

Business Practice Comments

- Three customers commented that they do not like the Redelivery Fee that applies if they stop yard waste collection service and restart at the same address within 12 months.

Staff Response

Companies are allowed to recover costs associated with picking up and redelivering carts.

General Comments

- Eight customers simply stated that they are against the proposed increase. Twenty-four mentioned the condition of our economy as the reason for their opposition. The frequency at which the company raises rates was mentioned twice.

Staff Response

Consumer Protection staff advised customers that state law requires rates to be fair and reasonable for customers, but sufficient to allow the company the opportunity to recover operating expenses and earn a return on investment.

Conclusion

Commission staff has completed its review of the company's supporting financial documents, books and records. Staff's review shows that the expenses are reasonable and required as part of the companies' operations. The customer's comments do not change staff's opinion that the companies' financial information support the revised revenue requirement and the revised rates and charges are fair, just, reasonable, and sufficient.

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